

SENATE BILL REPORT

ESHB 2875

As of March 17, 2010

Title: An act relating to health savings accounts.

Brief Description: Concerning health savings accounts.

Sponsors: House Committee on Health Care & Wellness (originally sponsored by Representatives Ericksen, Cody, Condotta, Hinkle, Herrera, Driscoll, Parker, Bailey, Green, Morrell, Kelley, Wallace, Kessler and Moeller).

Brief History: Passed House: 2/11/10, 96-1; 3/16/10, 88-5.

Committee Activity: Health & Long-Term Care: 2/24/10, 2/25/10 [DPA].

Ways & Means: 3/17/10.

SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

Staff: Mich'l Needham (786-7442)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: In 2003 as part of the Medicare Modernization Act, Congress authorized individuals to establish health savings accounts to work with qualifying high-deductible health coverage to help finance medical expenses. Health savings accounts are tax-free accounts set up by individuals or employers. The accounts are held by individuals, even when established and contributed to by employers. Interest earned is not taxed, and unused funds may carry over to the following year. A qualifying high-deductible health plan is one having an annual deductible of at least \$1,000 for individual coverage and at least \$2,000 for family coverage, with out-of-pocket costs not to exceed \$5,000 for an individual and \$10,000 for families. Preventive care is not subject to the annual deductible. The Internal Revenue Service rules on high-deductible health plans provide that services such as physicals, immunizations, screenings, prenatal care, and tobacco-cessation programs are covered without imposing any deductible. Preventive care also includes medication taken to prevent a disease or recurrence of a disease, such as taking cholesterol-lowering medications to prevent heart disease.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In 2005 the Legislature enacted legislation directing the Public Employees Benefits Board (PEBB) to develop a health savings account with a high-deductible health plan as an option for public employees. As of January 2010, the PEBB has not developed such a plan.

Summary of Bill: The PEBB must submit a bid for the 2011 health benefit plan procurement process to include a high-deductible health plan in conjunction with a health savings account. If the PEBB does not approve a high-deductible health plan with a health savings account for the 2011 benefit year, they must submit a report to the Legislature by September 1, 2010, regarding the decision. The report must include a work plan to ensure a plan is available for the 2012 benefit year.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony (Health & Long-Term Care): PRO: We've been in conversations with the Health Care Authority to resolve the issues with implementing health savings accounts. We've been working through the difficult issues and have packaged an alternative approach to implementation. It will be a benefit to employees to have a health savings account option. We strongly support expanding access to health savings accounts. Health savings accounts offer a tool to reconnect individuals with the cost of health care and address over-utilization. Expanding health savings accounts will bring more transparency in pricing and force providers to share the information more broadly, not just with state employees. Health savings accounts offer a tool to bring individuals into decisionmaking about their health care, and provide incentives for people to use less care and shop more aggressively. Recent studies suggest that concerns about adverse selection are not proving to be as big a problem as first thought. Adverse selection shouldn't be an issue because the state can deal with the cross subsidies throughout the program.

CON: We have serious concerns with health savings accounts and believe they do not control costs but shift costs onto enrollees. The designs leave significant out-of-pocket expense on enrollees and they will forgo necessary treatment. The designs also attract a younger, healthier population leaving the older, sicker employees in traditional plans with spiraling costs. The PEBB plans are already facing difficult economic challenges and this is not the time to create a new program. The implementation burden will drive up administrative costs and divert attention and resources from providing high quality plans.

OTHER: We've developed a different implementation approach with the prime sponsor, that focuses on developing a pass-through approach rather than developing a program fully integrated into the payroll systems. For the state employees alone, there are seven different payroll systems to interface with, and in the past discussions about a fully integrated model the systems costs were quite prohibitive, and the Legislature never authorized funding. The approach assumed here includes a limited focus on developing a pass-through of employer money into the health savings account, where the vendor will then put money in the actual

health savings account. This approach is not directly connected with the payroll systems, and as a result the cost reflected in the fiscal note is only a portion of past cost estimates, and it reflects consultant costs and the development of educational materials and communication materials to bring in a completely new product.

Persons Testifying (Health & Long-Term Care): PRO: Representative Ericksen, prime sponsor; Donna Steward, Association of Washington Business; Kriss Sjoblum, Washington Research Council.

CON: Greg Devereaux, Washington Federation of State Employees.

OTHER: Dennis Martin, Health Care Authority.